

Message Text

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ACTION TRSE-00

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6505

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E.O. 11652: N/A

TAGS: EFIN, PK

SUBJECT: PAKISTAN FOREIGN EXCHANGE RESERVES

REF: STATE 170010

1. MOST RECENT EMB ESTIMATE OF FY/75-6 PAKISTAN BALANCE OF PAYMENTS MAY PROVIDE SOME INSIGHTS INTO THE REASONS FOR THE SUBSTANTIAL INCREASE IN GOP FOREIGN EXCHANGE RESERVES NOTED IN EMB REPORTING AND IN REFTEL. (ESTIMATES ARE ONLY TENTATIVE; GOP OFFICIALS RESPONSIBLE FOR COMPILING DEFINITIVE STATISTICS HAVE NOT YET COMPLETED THEM.)

2. ESTIMATES ARE AS FOLLOWS: (IN DOLLARS MILLION)

BALANCE OF PAYMENTS FY 75/6

IMPORTS (FOB) 2,200

EXPORTS 1,130

TRADE BALANCE 1,070

FREIGHT AND OTHER

SERVICES (NET) 210

REMITTANCES 320

DEBT SERVICE 424

GAP 1,384

AID RECEIPTS 1,241

SHORT AND MEDIUM

TERM BORROWINGS 81

ERRORS & OMISSIONS 113

OVERALL SURPLUS 51

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FINANCED BY:

IMF (NET) 131
RESERVE (INCREASE - MINUS) 182

3. PART OF THE REASON FOR THE LARGE JUMP IN RESERVES IS THE ARRANGEMENT THE GOP HAS WORKED OUT WITH CERTAIN OF ITS OPEC DONORS, NOTABLY SAUDI ARABIA, WHEREBY DISBURSEMENTS FOR PROJECT LOANS ARE MADE WELL BEFORE THE EXPENDITURES ON THE PROJECTS. THE GOP ESTIMATES THAT PAKISTAN RECEIVED SOME \$60 MILLION IN PROJECT LOAN DISBURSEMENTS FROM SAUDI ARABIA AND IRAN DURING FY/76; OUR OWN IMPRESSION IS THAT AT MOST \$20 MILLION OF THIS WAS SPENT DURING THAT YEAR ON GOODS AND SERVICES RELATED TO THOSE PROJECTS. ANOTHER PART OF THE EXPLANATION FOR THE RESERVE INCREASE PROBABLY LIES IN THE SUBSTANTIAL "ERRORS AND OMISSIONS" FIGURE. SOME OF THIS AMOUNT ALMOST CERTAINLY REPRESENTS GENUINE ERRORS AND OMISSIONS SINCE THE ESTIMATES IT IS BASED ON ARE ONLY TENTATIVE. WE CONSIDER IT HIGHLY LIKELY, HOWEVER, THAT SOME OF IT REPRESENTS SHORT TERM DEPOSITS, PARTICULARLY FROM THE PERSIAN GULF, IN BANKS IN PAKISTAN. EARLIER REPORTING FROM THE EMBASSY HAS INDICATED THAT BANKS IN PAKISTAN HAVE BEEN RECEIVING SUCH DEPOSITS, BECAUSE OF ATTRACTIVE DOLLAR INTEREST RATES, ALTHOUGH THE SCALE MENTIONED WAS \$20-30 MILLION. WE CONSIDER IT LIKELY THAT THE PAKISTANI AUTHORITIES WOULD REGARD SUCH DEPOSITS AS FAIRLY VOLATILE MONEY RATHER THAN PERMANENT ADDITIONS TO THEIR RESERVES AND WOULD PLAN THEIR RESERVE MANAGEMENT ACCORDINGLY.

4. FINALLY, OF COURSE, THE LATEST ESTIMATES OF BOTH EXPORTS AND REMITTANCES ARE HIGHER THAN EARLIER PROJECTIONS. THE GOP BELIEVES THAT EVEN THE PRESENT \$320 MILLION ESTIMATE FOR REMITTANCES MAY BE CONSERVATIVE.
BYROADE

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